POLICY BRIEF

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Policy Briefs (PBs) represent succinct and concise analytical summaries providing insights into top-priority policy issues and offering policy recommendations and policy options. PBs are intended for targeted audiences such as policy makers, development stakeholders, the donor community and other interested parties.

Textile Industry in Uzbekistan:

Problems and Prospects

Economic globalization and the widening gaps in income and living standards between poor and rich countries have caused serious challenges for Uzbekistan. As a transition economy, Uzbekistan needs to focus on designing and implementation of adequate industrial policies[1] as a means of speeding up structural transformation, economic growth and export diversification. The country underwent a number of stages in the past decade, each with a set of different goals. During the first stage (1991-1995), the key objective was to achieve macroeconomic stabilization predominantly through the application of monetary policy mechanisms and rapid development of the basic industries (mainly oil and gas). The objective of the second stage (1996-2003) was to revive the economy by means of an import substitution policy. Today it is necessary to shift to the next stage of economic reforms by aiming at high, sustainable economic growth rates through export-oriented industrial policy and solving rapidly the problems of employment and income generation in Uzbekistan.

At the moment, the Uzbek economy is predominantly focused on agriculture. The share of agriculture in GDP (27-28%) is higher than the share of industry (20-21%). Given that 64% of the Uzbek population resides in rural areas, living standards highly depend on the development of these two sectors. Yet, opportunities for substantial export promotion are restrained by disadvantageous geographic location of the country that is land-locked, and by the low competitiveness of manufactured goods. The capacity of the domestic market for agriculture and industrial production is thus limited for the 26 million local population, which is increasing annually by approximately 500,000 people. It is estimated that nearly 15% of the population is in need of stable and productive employment. According to the consumer budget analysis conducted by the State Committee on Statistics, about 25% of the citizens suffer from poverty and low per capita income.

Research conducted by the Center for Economic Research in 2005 on the problems and prospects of the textile industry demonstrates that this sector could become a viable entry point for economic growth in Uzbekistan, an important element of the country's industrial policy, and key to the Welfare Improvement Strategy for the next 5-10 years. As this policy brief explains, the development of textile industry needs to be accelerated.

I. Global Trends and Their Impact on the Textile Industry in Uzbekistan

In the past 10-15 years, textile production has increasingly moved from Europe and the United States to South-East Asia, Central Asia and South America. Uzbekistan, which is a major exporter of cotton fiber, now hopes to enter the global market of manufactured textile goods. Due to termination of the Multi-fiber Agreement and the consequent cancellation of world quotas, competition in the world market is intensifying. As a result, only those producers who supply low-cost products of high quality could emerge as winners.

Table 1. World Cotton Fiber Production.

(Millions of metric tons)	2001/02	2002/03	2003/04	2004/05	2005/06 May	2005/06 June	2006/07* June
China	5.3	4.9	4.9	6.3	5.7	5.7	6.0
United States	4.4	3.7	4.0	5.1	5.2	5.2	4.5
India	2.7	2.3	3.0	4.1	4.0	4.1	4.4
Pakistan	1.8	1.7	1.7	2.4	2.1	2.1	2.3
Brazil	0.8	0.8	1.3	1.3	1.0	1.0	1.2
African Franc Zone	1.0	0.9	1.0	1.1	1.0	0.9	1.0
Uzbekistan	1.1	1.0	0.9	1.1	1.2	1.2	1.1
Turkey	0.9	0.9	0.9	0.9	0.8	0.8	0.9
Australia	0.7	0.4	0.4	0.7	0.6	0.6	0.6
Other	2.9	2.6	2.8	3.1	2.9	2.9	3.0
World Total	**21.5**	**19.2**	**20.7**	**26.2**	**24.7**	**24.8**	**25.0**

*estimated

Source: United States Department of Agriculture

Table 2. World Cotton Fiber Consumption.

(Millions of metric tons)	2001/02	2002/03	2003/04	2004/05	2005/06 May	2005/06 June	2006/07* June
China	5.7	6.5	7.0	8.4	10.1	10.1	11.1
India	2.9	2.9	2.9	3.2	3.5	3.4	3.7
Pakistan	1.9	2.0	2.1	2.3	2.6	2.6	2.7
Turkey	1.3	1.4	1.3	1.5	1.5	1.5	1.5
United States	1.7	1.6	1.4	1.5	1.3	1.3	1.2
Brazil	0.8	0.8	0.9	0.9	0.9	0.9	0.9
EU - 25	1.1	1.0	0.8	0.7	0.6	0.6	0.6
Indonesia	0.5	0.5	0.5	0.5	0.5	0.5	0.5

Thailand	0.4	0.4	0.4	0.5	0.5	0.5	0.5
Mexico	0.5	0.5	0.4	0.5	0.4	0.4	0.4
Bangladesh	0.3	0.3	0.3	0.4	0.5	0.5	0.5
Russia	0.4	0.4	0.3	0.3	0.3	0.3	0.3
South Korea	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Uzbekistan	0.3	0.3	0.3	0.2	0.2	0.2	0.2
Taiwan	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other	2.2	2.3	2.2	2.2	2.2	2.2	2.2
World Total	**20.6**	**21.5**	**21.4**	**23.7**	**25.5**	**25.5**	**26.7**

*****estimated

Source: United States Department of Agriculture

In this regard, developing countries are striving to attract foreign investors and technologies to their national textile industries while seeking for their niche in the global market for ready-made garments through the production of cotton fiber, yarn and fabrics to ready-made goods. Countries which have invested in improving their textile industries have gained considerably from attracting foreign investors. It is important for Uzbekistan to study the global experience of textile industry development and to identify the most optimal way for rapid development of a national textile sector.

We should also take into consideration the fact that the governments of some South-East Asian, Central Asian and South American countries have supported new textile enterprises by granting them tax privileges, investment guarantees as well as direct export subsidies and tax credits. Some of these countries are involved in the whole range of activities from cotton agriculture all the way to production of ready-made garments. Others produce finished goods made on commission or they produce garments using their own raw materials under well-known multi-national firms. Foreign investors tend to gravitate towards countries which have both the adequate legal framework and liberal conditions for the production of export-oriented goods.

Role of Major Brands in the Textile Sectors of South and South-East Asia

In the mid 80-s, in China, as advanced equipment and highly skilled labor force were not required, initial production schemes were based mainly on the clients' raw material. After China opened its domestic market in the late 90s, the country has been able to attract international trade companies like Carrefour, Wal-Mart or Metro as well as firms from Taiwan and Hong Kong. These firms simultaneously gained access to the large urban well-to-do middle class of Chinese society (amounting to approximately 50 million consumers) by setting up large supermarkets in large Chinese cities.

Cambodia has similarly established more than 200 garment factories employing over 120,000 women since 1994. The fabrics and accessories needed for production were imported and processed through subcontracts with customers from Europe, USA and Canada. Today, the textile industry constitutes more than 70% of Cambodia's exports. In Bangladesh and Macau (a special administrative region of China), textile factories processing orders from well-known brands or large distributing companies produce almost 80% of goods exported. In Pakistan, Sri Lanka and Mauritius, this index exceeds 50%.

Bangladesh, a country with scarce natural resources, is able to utilize its cheap labor force, access to seas and favorable tax regime, to specialize in the production of ready-made garments through imported raw materials to fulfill large orders of well-known garment producers. In Bangladesh, due to favorable tax environment over textile enterprises, employment in the textile industry has increased from 400,000 in 1990 to 2 million in 2004, and the number of enterprises from 800 to 4,000 over same period. In Bangladesh today, the well-being of 10-12 million people depends on textile industry, which thrives on special orders.

Source: *Based on the findings of the CER survey, 2005*

In Turkey and the CIS, competitive prices are maintained through the consolidation of large textile companies into holdings (clusters) responsible for the full production cycle – from processing of fibers to production of ready-made garments.[2] This practice will be affected by a number of factors in the future, among which are the following:

a) *A gradual reduction of the global foreign trade in cotton fiber and an increase of the world global trade in ready-made garments.* This trend may be countered if textile industries in developing countries are rapidly expanded, whether in those producing small volumes of cotton fiber (Turkey, Brazil) or not (such as in Indonesia, Taiwan, Mexico, etc.). As a result, the price for cotton fiber is expected to remain in the range of 57-64 US cents per pound in 2005-2010, according to the forecasts.

b) *The displacement of European and US producers from the market* due to the expansion of ready-made garment exports by developing countries under the brands of leading global textile companies.

c) *Increased competition in the textile market between China and the rest of the world.* To counter China's great competitive advantages, other textile-producing countries are trying to obtain individual preferences and privileges in US and European markets.

d) *Decline in prices for textile products due to the elimination of import quotas* for cotton fiber in the developed countries, USA, Canada, and EU.

e) *A reduction of prices for textile products due to increased global competition*. High prices will be maintained only for individually-tailored garments and for limited series of models of well-advertised firms and fashion houses.

f) *The rapid development of new technologies for the production of textile goods from nontraditional materials* (for instance soy bean and bamboo fibers). If adequately designed, goods made of these fibers could create real competition for those made from more traditional types of raw materials, such as cotton fiber. As a result, textile industry centers might once again shift to countries with better capacities in the new types of raw materials.

These global trends will have a direct impact on the development of the textile industry in Uzbekistan, forcing the sector to seek new ways to ensure its competitiveness.

II. Why is the Textile Industry a Priority?

The textile industry should be accorded priority within the national development policy due to the following factors:

A. First, textile industry is not a capital but a labor-intensive sector,

which can ease employment problems:

One million dollars ($1 million) invested into the sector can create 45-50 work places, while the same volume of investment into a fuel and energy complex creates only 8-10 work places, and 12-15 in the machine building sector. The rapid development of the textile industry would support employment first of all in rural areas, where approximately 500,000 to 600,000 workers are released per year due to reforms in the agriculture sector. Employment generation through the development of the textile industry would both considerably increase budget revenues and foster social stability.

Uzbekistan today has the resource base and a qualified, low-cost labor force for the production and export of ready-made textile products. At the moment, the majority of the domestic demand for knitwear and ready-made garments is met through informal production by local entrepreneurs. More favorable conditions would allow local producers to become more competitive vis-à-vis foreign producers both in the domestic and foreign markets.

B. Second, the export of manufactured textile goods instead of cotton fibers has a number of benefits:

The higher amount of value-added within Uzbekistan is a major benefit. That would generate a lot of economic gains throughout the economy, leading to a broadening and deepening of the manufacturing and services sectors. Moreover, it will reduce the effects on Uzbekistan's economy of the fluctuations which are common in the global commodity markets. By moving from being an exporter of cotton fiber to a multitude of textile products, the economy will be less affected by the vagaries of a single commodity market.

The experience of a number of developing countries points out the possibilities of initiating a successful industrial policy through the textile sector.

III. The Comparative Advantages of Uzbekistan for Developing its Textile Industry

Uzbekistan has substantial comparative advantages to establish a significant national textile sector:

- ***Low cost of labor:*** According to estimates of National Stock Company "Uzbeklegprom", in 2004, the cost of labor in the textile industry was $0.22-0.25 per hour in Uzbekistan. This compared with the $0.28 in Bangladesh and Vietnam, $0.29 in India, $0.37 in Pakistan, $0.55 in Indonesia and $0.57 US in China. In Malaysia the cost of labor is $1.18 per hour, in Turkey $2.88, in South Korea $7.10[3].

- ***Low energy cost:*** 1 cubic meter of natural gas in Uzbekistan costs $0.03. In Turkey, France and USA it is between $0.21 and $0.23, while in China the cost is $0.28.

  A kilogram of fuel oil in Uzbekistan costs $0.08. In China, India, Turkey, South Korea the cost is between $0.29-0.34, in the US $0.20, in Western Europe $0.23 and in Pakistan $0.50.

The cost of electricity in competing countries varies from $0.03 to $0.09 per kWh while in Uzbekistan it is $0.03.

- ***Low water cost:*** in Uzbekistan, the cost of water for industrial needs constitutes $0.13 per cubic meter, while in China it is $0.15, in India $0.16, in Pakistan $0.26, in USA $0.51, South Korea $0.60, Turkey $1.50, Western Europe $1.23-1.91. While the water use in textile industry is not so large, low water price still provides some additional competitive advantages to the industry.
- ***Availability of raw materials:*** Cotton fiber is the primary cost item for the textile industry. Uzbekistan produces more than 1 million tons of cotton fiber per year, but only a fraction of that is used by domestic textile enterprises. Closeness of raw materials sharply reduces transport costs and time for delivery to enterprises. Uzbekistan also produces silk and has adequate raw materials for woolen cloth.

IV. Challenges in the Domestic and Foreign Markets

Despite these advantages, the textile industry in Uzbekistan faces a number of challenges, which reduce its competitiveness.

First are the problems related the Uzbek textile producers' restricted access to top quality cotton and high prices they are charged. Most developing countries, which pursue a strategy aimed at the rapid development of their textile industries, have set favorable prices for raw materials[4]. Until recently in Uzbekistan, however, raw materials for the national textile industry were based on the residual principle - after the sale of cotton fiber for export. Enterprises vary in their access to raw materials and the prices they pay:

a) All joint ventures (JVs) purchase cotton fiber from foreign trade companies in hard currency at prices set by the Liverpool Cotton Exchange, minus a discount equal to the estimated minimal cost of transport and insurance.

   Still, since JVs are not reimbursed for the VAT when procuring cotton fiber for hard currency, their cotton costs 20% more than their foreign competitors have to pay. That makes Uzbek JVs uncompetitive right from the start.

   Moreover, trade companies consider export contracts a higher priority, supplying the foreign importers with cotton-fiber of a higher quality.

   On top of those and until recently, JVs had to pay "Sifat" Uzbek Certification Center[5] for such services as certification and weighing of bales of cotton fiber, services of cotton terminals, costs for storage and insurance of cotton fiber at the terminal, bank charges, commissions, etc. All these additional expenses borne by JVs add up to $36.6 – 44.1 per ton, and reduce to around 11-12% the effect of the 15 % discount set by the Decree of the Cabinet of Ministers #447 of 16.10.2003.[6]

b) Large textile producers without foreign capital in the meantime purchase cotton fiber at the exchange auctions in local currency at the price set by the Liverpool Cotton Exchange with a 35% discount, but not lower than the list prices set by the government. Given that the auctions are not held regularly (only once a month or less frequently), enterprises often purchase large quantities of cotton fiber and bear the risk of fluctuating prices and frozen turnover assets. Moreover, the listed price becomes equal to or even higher than world prices of cotton when the latter is sharply reduced, as was the case in the autumn of 2004. Thus, national producers lose their price competitiveness vis-à-vis importers of Uzbek cotton. For instance, in February 2005, domestic purchasing prices for cotton fiber exceeded by $12 the export price of $52 per ton (excluding transportation expenses), in April-June. At the same time, in local enterprises which do not have any foreign shareholders, insufficient technical equipment hampers the production of high-quality textile goods.[7] Due to low capacity of market institutions, the tools for hedging against future price fluctuations connected with price risks on stocks are not applied/used.

c) Finally, small enterprises use low-grade cotton for the production of medical cotton (cotton wool used in medicine), etc. and they buy its fiber at auctions at world prices without any discounts[8].

Second, two important impediments to the development of the textile industry in Uzbekistan are the high tax burden, and the unstable financial situation of textile enterprises. The tax burden on local textile enterprises is much higher in Uzbekistan than in the neighboring countries. Even under the most favorable circumstances, when an enterprise exports its goods and reimbursed VAT, the level of profitability is much lower than that not only of China, Bangladesh and other developing countries but also of Kazakhstan and Russia. Furthermore, compulsory payments to the Road, School and Pension Funds, which are calculated based on the total volume of the produced goods, add considerably to the tax burden. Social taxes paid by employers and personal taxes paid by employees are also much higher in Uzbekistan than in other countries.[9]

There are also huge differences in the tax privileges enjoyed by selected textile enterprises, which distorts the competitive environment; especially since they are not transparently given in accordance with any structured government policy. Such differentiation is to the advantage of local enterprises with shares from foreign investors as well as those included in the system of Uzbeklegprom Company (Uzbek Light Industry Company)[10]. It puts all other enterprises at a substantive disadvantage.

As much as 15-20% of textile enterprises face either bankruptcy or major difficulties in unprofitable trading annually, especially in the spinning-weaving sectors. Total losses in 2004 amounted to 45.8 billion Uzbek soums, which was 1.5 times higher than in 2003 and 4.8 times higher than in 2002. The number of unprofitable companies increased from 3% in 2002 to 10% in 2004. The liquidity ratio (solvency) of the textile industry was 0.78 in 2004 - 0.22 lower than the normal rate. When it comes to the ability to clear liabilities fully and on time, 65% of spinning-weaving enterprises have low solvency.

The third challenge is the outdated technology used for the production of cotton fiber and textiles. Approximately 75-80% of the raw cotton processing plants currently function with outdated technology. As a result, the ginning outturn (the percentage of fiber that gins extract from seed cotton) is lower and losses at the ginneries are much higher than in the countries using modern cotton-gins. For example, in many developing countries the ginning outturn is on average 39%, whereas in Uzbekistan it has been below 32%.

If the losses were reduced (which today contributes to a direct loss of 6% of outputs), it would be possible to increase the average output of cotton fiber by 1%. That alone would have amounted to an additional 35,000 tons of cotton fiber in 2004, approximately $35-40 million in revenues if the fiber was sold on the world market. To reduce such waste, the modernization of existing cotton plants is estimated to cost $50 million, which can be recovered within 18 months[11]. However, financing for this modernization through credits or investments can only be assured if cotton plants are privatized and face competition. For the moment, only yarn-producing joint ventures benefit from modern equipment and quality certificates which allow them to compete in the world markets. Yet, approximately 20% of yarn is produced by enterprises with outdated equipment whose low-quality yarn reduces the quality of cotton and blended fabrics[12]. Only a few new joint ventures produce cotton fabrics in plants equipped with modern facilities[13].

Fourth are the challenges due to the relatively high import dependency of ready-made garments and knitted wear on raw material, interim goods and accessories. Uzbekistan, unlike other competing countries, does not have adequate manufacturing capacities for the production of accessories, modern fabrics for clothing,[14] woolen cloth[15] and high-quality leather. These deficiencies affect the domestic production of ready-made garments. As a result, both textile enterprises and the local population have to rely on imported fabrics for tailoring, especially when preparing for wedding celebrations, which is an important domestic market.

In China, India and Pakistan today, the preparation of an industrial piece with accessories and ornaments takes 7-10 days. In Uzbekistan this process can take up to 20-30 days since local accessories are not available and printing/embroidery is imported mainly from Turkey or the United States. Uzbekistan also depends on imported equipment spares, lubricants and chemicals; a dependency, which causes higher production costs because of current import regulations, transit time, transportation, etc.

Fifth, high customs duties for imported fabrics and accessories render domestic textile industry uncompetitive. Entrepreneurs and small enterprises often get around this problem by purchasing smuggled fabrics. But this solution allows them to produce high quality and competitive goods in small quantities only.[16] Meanwhile, the tough tax burden, customs duties for imported raw materials, and differences between cash and non-cash payments lead many shops and individual entrepreneurs to work for cash and evade taxes.

Sixth, are problems of being out of step with global fashion trends. Due to the lack of close contacts with global markets, Uzbek textile manufacturers cannot follow evolving fashion trends and move up the market. They mostly cater to cultural and national traditions of the domestic market and can only produce for exports based on disappearing fashions. An obvious solution to this situation is to integrate better with the global market through sub-contracting for major brands.

Seventh, Uzbekistan has a lower credit rating than its competitors. Uzbekistan has higher costs for interest rates on foreign credits because of its lower credit rating. It is estimated that obtaining credits in China, India and Pakistan is easier and more profitable than in Uzbekistan.[17]

Eighth, extremely low level of cooperation between Uzbekistan's banks and its textile enterprises. The banking system is seen as unfriendly, obstructive and inadequate to support a dynamically growing sector because of excessive regulation of banking transactions imposed by the Central Bank. This restrictive financial environment is one of the reasons for slowing FDI into

Uzbekistan's textile industry.

Ninth, are the challenges of real competition in the global trade. Uzbek producers have to compete with countries that enjoy favorable trade agreements with duty-free or low-duty export of their goods to the largest markets of Europe and USA[18]. For Uzbekistan's exports to such markets, custom duties constitute 14-18% of the amount of contracts. Cotton yarn, fabrics, ready-made garments and knit-wear exported by Uzbekistan to the EU, for example, suffer from customs duty at 4.2%, 8.4%, 9.6% of the total cost, respectively. On the other hand, imports from some countries, such as Turkey, Syria, Egypt, Nigeria and Pakistan, are free of duty.[19]

V. Recommendations and Proposals

In full consideration of the favorable and adverse factors highlighted above, the following recommendations are seen essential to creating a favorable environment for the development of the textile industry in Uzbekistan:

1. Uzbekistan should introduce **a system of financial incentives and manufacturing integration** between the producers of seed and raw cotton on the one side, and producers of cotton fiber on the other.[20] One way to transform the processing of raw cotton is to privatize cotton plants and eliminate obstacles to the establishment of new private cotton plants. This would allow farmers also to choose their mode of cooperation with the cotton processing plants. They should be able to place orders and pay the cotton processing plants for agreed specifications of processing into cotton fiber and/or its storage. They could then put up their cotton fiber for sale to domestic customers through a market pricing system, which does not exceed the price of the Liverpool Cotton Exchange (minus transport, insurance and other export expenses).

2. Cotton fiber should be sold to domestic consumers not through the auction system but through **daily exchange trades**. This will create similar conditions for access to cotton fiber for domestic textile producers and provide incentives for enterprises to update their facilities rapidly. Buyers need to be able to purchase their cotton fiber at more equitable rates, which reflect global prices.

3. Regulatory changes are necessary to **let textile enterprises engage farmers in the production of raw cotton**. Thus, textile enterprises would be able to order the required sort and quality of cotton fiber, and provide seed as a form of advance payment. Raw cotton could then be delivered directly to the customer, bypassing exchange trades.

4. **Export quotas** should be granted to specialized foreign trade companies that buy cotton fiber through an exchange system or who place futures contracts with farmers and pay advances for cotton production. It is also important to encourage the direct links of Uzbek foreign trade companies with foreign consumers of cotton fiber.

5. Substantial **foreign investment** should be attracted to the production of high quality woolen, half-woolen and other fabrics for clothing manufacture as well as to chemicals, dyes and accessories. In the meantime, the production of ready-made garments should be left to small private enterprises given that the domestic demand can be better met by tailoring small quantities of goods. Furthermore, establishment of mini-shops for tailoring services within the premises of textile enterprises could meet the domestic demand.

6. It is necessary to **reduce the tax burden**. Since the textile industry is labor intensive, wage taxes (social payments and income tax) should be sharply reduced. And, those textile sub-sectors that do not cause any appreciable environmental degradation should be exempt from the environment tax. Thirdly, it is essential to apply the mechanism of VAT exemption which is provided by the Tax Code[21].

7. A **reduction or abolition of customs duties** should be considered for those raw materials, accessories and spare parts that are not feasible to produce domestically.

8. Textile enterprises with outstanding bills should be declared bankrupt and sold to new owners. This system would provide an opportunity for **restructuring**, including debt restructuring, and recommence feasible new production cycles. This would also allow cutting production costs (through optimizing the value of assets and exempting debt payment from the production costs). But this will also require solving the problem of debt repayments on credits received against government guarantee.

9. Large state enterprises should be restructured and **privatized**. This will also encourage foreign investments needed to introduce modern technology and modern management methods.

10. Once privatization is completed and the sector is represented primarily by genuine private companies, including enterprises with foreign investment, it is necessary to gradually create favorable conditions for the right level of backward and forward-linkages, and economies of scale that would make Uzbekistan's textile industry **globally competitive**. That would generate firms which are better able to respond to rapidly changing economic conditions[22]. Among measures to foster industrial restructuring can be, for example, exempting inter-cooperative supplies within the clusters from such turnover payments to budget and off-budget funds as the VAT, deductions to pension, road and school funds. At the same time, it is necessary to regulate that these payments are made within corporations by enterprises producing ready-made garments (clothes, knitwear, and hosiery).

Private textile enterprises especially in the form of clusters can, to a certain degree, solve the numerous challenges of management and marketing performance. With these objectives in mind, the textile industry can become a powerful engine of economic development by 2010.

11. The government could support the textile sector by developing **a public relations campaign**, like "Made in Uzbekistan," targeting both domestic and foreign markets to generate a favorable image of Uzbek textile products, especially for cotton goods.

12. Attract the major multinationals, like Levi's, GAP, and others to establish apparel processing in Uzbekistan. That will generate tremendous learning for the employees and Uzbek sub-contractors of those multinationals, and in time, accelerate the generation of a genuine Uzbek textile sector that is globally integrated.

[1] Please note that industrial policy always presumes development of some industries through transferring financial and labor resources, as well as raw materials from other sectors of economy. As a result of the industrial policy some industries are developing faster than if it would be influenced by market forces only.

[2] For instance the “Russian Textile” financial-industrial group and “Yakovlevskiy” Textile holding invest in the Ivanovskaya Oblast in the Russian Federation. A decision to establish a textile cluster “Ontustik” was taken in Kazakhstan.

[3] The other sources’ figures show Uzbekistan effective wage rates similar to those in Vietnam and other south Asia countries but not less. Their comparison of labor rates measured in standard allowed minutes in US$ (source Kurt Salmon Associates) indicates that labor rates in Uzbekistan are not considerably below the labor rates in other developing countries: Uzbekistan - 0.098, Russian Federation – 0.106, Cambodia – 0.093, Vietnam - 0.094, India – 0.095, Indonesia – 0.097, China – 0.098, Thailand – 0.098, Sri Lanka – 0.098, Philippines – 0.099. An informal discussion with operators of local apparel producers indicates that wages here are now considerably higher than $0.22 - $0.25 per hour.

[4] China and Syria established fixed prices for local producers at the rate of 700 dollars per ton. In Pakistan the discount from the world price constitutes 20-50% depending on investment and economic parameters of the projects. In addition Pakistani companies purchase high quality cotton for producing top quality cotton yarn and fabrics. Moreover they obtain domestic cotton by stable prices not exceeding 700 US dollars which is lower than the world prices and allows Pakistani producers to maintain their competitiveness on the world market.

5 The Uzbek Centre "Sifat" is an independent organization in Uzbekistan that has got the accreditation of Uzgosstandart. This gives “Sifat” the right to perform compulsory certification of cotton fiber produced for export and/or interepublican supplies at the Republican ginneries. There are "Sifat" regional laboratories in all regions of the Republic. They ensure quality control of each cotton fiber bale and issue a certificate, which is an obligatory document for customs registration of cotton fiber for export supplies. “Sifat” is a member of Leading European Cotton Associations.

[6] Most of the mentioned problem were addressed in 2006 (Resolution of the Cabinet of Minister # 232 of 19/10/2005.

[7] The mentioned problems were partially solved when the President’s decree #330 as of 21 April 2006 was issued. For all internal consumers the sales of cotton fiber is to be performed in hard currency with discount for starting prices in the amount of 15% of world price at the daily stock in a real-time mode. The exceptions are made for the Joint Ventures, which buy cotton fiber from the Export Trading Companies and 21 big textile enterprises. Currently those JVs are being modernized and they got the opportunity to buy cotton fiber at the stock for national currency during the grace period until 1 July 2007.

[8] The same as above (footnote 7)

[9] Starting from 2006 the social tax is decreased substantially. It constitutes 25% of wages bill against 31% rate that was in 2005. Starting from 2006 the environment tax is cancelled. The income tax reduced from 15 to 12%, the single tax for enterprises with total number of employees up to 100 people is combined with 3 payments to the extra-budgetary fund and reduced from 15.7% to 13%. As of 1 May 2006 all enterprises exporting 80 % of their production and more are exempted from property tax.

[10] In Uzbekistan, joint ventures within the system of Uzbeklegprom have tax privileges. Until January 1, 2009 joint ventures producing ready-made garments (clothes, knitwear, leather and hosiery) are exempted from all payments to budget except for VAT (in case sale of the goods on the domestic market). Hence considering the general taxation system, these enterprises are exempted from 9 taxes and duties.

[11] The ongoing programme assumes the replacement of out-of-date and depreciated equipment on 14 currently operating ginneries, construction of 8 new plants, reconstruction of 7 consignment storage facilities and construction of 7 new facilities, re-equipment and construction of new shops for preparation of sowing seed. 12.6 billion Uzbek soums and 39 million US dollars are to be allocated for implementation of this programme. *Economic Review magazine*, issue 11, 2004.

[12] According to the President’s decree #330 as of 21 April 2006, the enterprises with outdated equipment are not allowed to buy cotton fiber and are subject either to liquidation, or to modernization.

[13] Most cotton fabrics are produced from carded yarn with the linear density/titer of 18-50 tex. by local enterprises on outdated equipment. This restraints diversification of products, including the production of fine-spun fabrics, chiffon, staple, madapollam, shirt fabrics, etc.

[14] Cotton fabrics produced in Uzbekistan can be mainly used for the production of bed linen and separate types of home clothes. There are no production facilities for manufacturing shirt fabrics, denim used for production of jeans, jackets and shirts, various types of fine-spun cotton and modern silk tissues.

[15] The only enterprise producing woolen cloths “Kasanay Tekmen” is insolvent and barely manufactures any fabrics.

[16] Expert assessments and results of the poll undertaken by the research experts demonstrate that substantial part of ready-made garments sold in Uzbekistan on markets under the labels of foreign companies is a well falsified production of local entrepreneurs and small enterprises.

[17] According to an article published in *USA TODAY* (August 10, 2004) Chinese companies have certain benefits from underestimated yuan and cheap bank credits.

[18] Thanks to North American Free Trade Agreement, Mexico has duty-free export to American market. Hence the ready-made garments from this country have prevailed over Chinese goods. Due to Caribbean Initiative and Trade Preference Act the same advantages have been granted to Dominican Republic, Salvador, Guatemala, Honduras, Jamaica, Bolivia, Ecuador, and Peru.

[19] According to so-called Lom Conventions (the first one was signed in 1975) almost all goods from 70 countries of Africa, the Caribbean and the Pacific were granted duty-free access to EU markets. The same agreements have been signed with 12 Mediterranean countries. EU Commission has also stated about a set of trade preferences for Pakistan.

[20] Uzbek-French joint venture “Bukhara Seed Company” has a plant for processing raw cotton and provides farmers with the seeds of high quality as an advance for farmers to produce ordered raw cotton. It also controls the use of seeding technologies, including the provision of seeding machines to the farmers, as well as the whole process of cotton growing. It pays for the cotton obtained in time and in full, has no problems with cotton export, because it gets the cotton of ordered type and quality.

[21] The recommendations provided in the report of the Center for Economic Research “Problems and perspectives of the development of Uzbekistan’s textle industry”, have been considered in the approved by the Senate budget policy for 2006 for all sectors of economy.

[22] The example of the initiated process is an establishing holding company “Bursel” (Turkey) consolidating such enterprises as “Oksaroy Tukimachi” Joint Venture, “Chinoz Tukimachi” processing cotton fiber and producing yarn and high quality stockinet, and “Bursel Tashkent Textile” Joint Venture that based on the products manufactured by the aforementioned enterprises focuses only on production of the ready-made garments. These enterprises are focused on production and substantially save their funds for implementing a common marketing policy developed by “Bursel” company. The head office is responsible for sales, advertisement in foreign countries and orders for enterprises. Another example is “Textile Group Hof” (Germany), shareholder of “Balichiteks” Joint Venture, and being established “Kokand Hof Textile” Joint Venture as well as “Demir Group” Company founded “Ya-Dem Textile” (production of knitwear) and implementing projects TeksMir (yarn production) and “IDemir Textile” (ready-made garments and hosiery).